

Legislative Audit Division

State of Montana



Report to the Legislature

July 2005

Financial-Related Audit

For the Two Fiscal Years Ended June 30, 2005

Montana State University (All Campuses)

We performed a financial-related audit of Montana State University for the two fiscal years ended June 30, 2005. This audit covered all four campuses affiliated with Montana State University: Montana State University-Bozeman, Montana State University-Billings, Montana State University-Northern, and Montana State University-Great Falls College of Technology.

This report contains one recommendation to the university related to monitoring federal grants and contracts.

The financial audit of Montana State University's consolidated financial statements for the fiscal year ended June 30, 2004, was issued in a separate report in December 2004 (04-11). The financial statement audit for the fiscal year ended June 30, 2005, will be issued in a separate report (05-11) in December 2005.

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

05-13

STATE DOCUMENTS COLLECTION

NOV 30 2005

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.



FINANCIAL-RELATED AUDITS

A financial-related audit is a component of the biennial financial-compliance audit. In these audits, the financial-related and financial audits are combined for a two-year period to constitute the financial-compliance audit. Financial-compliance audits are classified as financial audits according to Government Auditing Standards. The primary objectives of the financial-related audits are to determine compliance with regulations relating to contract and grant expenditures, other governmental financial assistance, and to test compliance with requirements of selected state laws, regulations, and rules. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Joe Balyeat
Senator John Brueggeman
Senator Jim Elliott
Senator Dan Harrington
Senator Lynda Moss
Senator Corey Stapleton

Representative Dee Brown
Representative Hal Jacobson
Representative Christine Kaufmann
Representative Scott Mendenhall
Representative John Musgrove
Representative Janna Taylor

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

July 2005

The Legislative Audit Committee
of the Montana State Legislature:


This is our report on the financial-related audit of Montana State University (all campuses) for the two fiscal years ended June 30, 2005. We issue a financial audit each fiscal year covering the fiscal year's consolidated financial statements of the university and a financial-related audit every other year. The financial audit of Montana State University's consolidated financial statements for the fiscal year ended June 30, 2004, was issued in a separate report in December 2004 (04-11). The financial audit for fiscal year ended June 30, 2005 will be issued in December 2005 (05-11).

This report includes a recommendation related to monitoring federal grants and contracts.

We thank the president and university staff for their assistance and cooperation during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".
Scott A. Seacat
Legislative Auditor



Digitized by the Internet Archive
in 2012 with funding from
Montana State Library

<http://archive.org/details/montanastateuniv05mont>

Legislative Audit Division

Financial-Related Audit

For the Two Fiscal Years Ended June 30, 2005

Montana State University

Members of the audit staff involved in this audit were Jeane Carstensen-Garrett, Chris Darragh, Geri Hoffman, Paul O'Loughlin, and Sonia Powell.

Table of Contents

Appointed and Administrative Officials	ii
Report Summary	S-1
Introduction	1
Audit Objectives.....	1
Background	1
Montana State University Funding	5
Montana State University - Bozeman	5
Montana State University - Billings.....	5
Montana State University - Northern.....	6
Montana State University - Great Falls College of Technology (MSUGF)	6
Prior Audit Recommendations	7
Findings and Recommendations	9
Federal Research and Development Grants	9
Controls over grants and contracts.....	9
University Response	A-1
Montana State University.....	A-3

Appointed and Administrative Officials

Board of Regents of Higher Education

Brian Schweitzer, Governor*
Linda McCulloch, Superintendent of Public Instruction*

John A. Mercer, Chair
Mike Foster, Vice Chair
Kala French, Student Regent
Lynn Morrison-Hamilton, Regent
Stephen Barrett, Regent
Mark Semmens, Regent
Lila Taylor, Regent

*Ex officio member of the Board of Regents of Higher Education

Office of the Commissioner of Higher Education

Sheila Stearns	Commissioner of Higher Education
Roger Barber	Deputy Commissioner for Academic and Student Affairs
Appointment Pending	Associate Commissioner for Fiscal Affairs
David Gibson	Associate Commissioner for Economic Development and Outreach
Pam Joehler	Director of Budget and Accounting
Cathy Swift	Chief Legal Counsel

Montana State University-All Campuses

Geoffrey Gamble	President
Rolf Groseth	Vice President of Intercampus Affairs
Virginia Key	Internal Auditor

Montana State University-Bozeman

David Dooley	Provost and Vice President for Academic Affairs
Craig Roloff	Vice President for Administration and Finance
Thomas McCoy	Vice President for Research and Creative Activities
Leslie Schmidt	Assistant Vice President for Research and Creative Activities
Allen Yarnell	Vice President of Student Affairs
Leslie Taylor	Legal Counsel
Laura Humberger	Controller
Kathy Attebury	Director of University Budgets
Tom Gibson	Treasurer

Montana State University-Billings

Ronald P. Sexton	Chancellor
Janie C. Park	Provost and Academic Vice Chancellor
Curt Kochner	Interim Vice Chancellor for Student Affairs
Terrie Iverson	Administrative Vice Chancellor
LeAnn Anderson	Director of Financial Services
Jim Nielson	Director of Business Services
Trudy Collins	Budget Officer and Internal Audit

Appointed and Administrative Officials

Montana State University- Northern

Alex Capdeville	Chancellor
Cheri Jimeno	Interim Provost and Senior Vice Chancellor
Chuck Jensen	Vice Chancellor for Finance & Administration/Student Affairs
Carrie Molitor	Controller

Montana State University College of Technology – Great Falls

Mary Sheehy Moe	Dean
Vernon Pedersen	Associate Dean for Academic and Student Affairs
Mary Ellen Baukol	Assistant Dean for Business and Finance

Montana Agricultural Experiment Stations

Jeffrey Jacobsen	Director
Connie Shelhamer	Budget & Fiscal Director

Montana Extension Service

Douglas Steele	Vice Provost and Extension Director
Sandra Rahn-Gibson	Budget and Fiscal Director

For further information on the Montana State University
(all campuses) contact:

Virginia Key, Internal Audit
Suite 7 Hamilton Hall
Bozeman, MT 59717
(406) 994-7035
key@montana.edu

Montana State University All Campuses

We performed a financial-related audit of Montana State University (all campuses), for the two fiscal years ended June 30, 2005. This report contains one recommendation relating to monitoring federal grants and contracts.

The listing below serves as a means of summarizing the recommendations contained in the report, the university's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend MSU-Bozeman:

- A. Submit final financial reports and billing invoices in a timely manner, not later than 90 days after the end of the funding period; and
- B. Ensure the grant closeout checklist is complete. 11

University Response: Concur. See page A-4.

Introduction

Audit Objectives

We performed a financial-related audit of Montana State University (all campuses) for the two fiscal years ended June 30, 2005. The objectives of the audit were to:

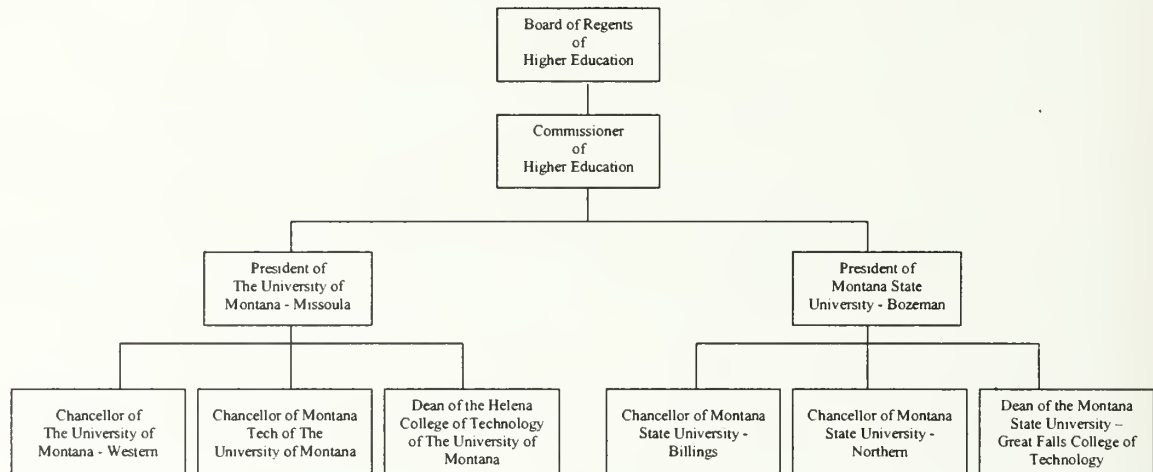
1. Determine if the university complied with applicable laws and regulations.
2. Determine the university's compliance with federal regulations applicable to student financial aid and research and development grants, including the implementation of internal control over compliance.
3. Provide university management with recommendations for improvements in the internal and management controls.
4. Determine the implementation status of prior audit recommendations.

In accordance with section 5-13-307, MCA, we analyzed the cost of implementing the recommendation made in this report. The report section discloses the cost, if significant, of implementing the recommendation. Other areas of concern deemed not to have a significant effect on the successful operation of university programs are not specifically included in the report, but have been discussed with management.

Background

The Board of Regents of Higher Education approved the current Montana University System structure in January 1994. The following chart illustrates the organization of the Montana University System.

Figure 1
Montana University System Organization



Source: Compiled by the Legislative Audit Division from university information.

Montana State University consists of four campuses:

- ▶ Montana State University – Bozeman (MSU-Bozeman)
- ▶ Montana State University – Billings (MSU-Billings)
- ▶ Montana State University-Northern (MSU-Northern)
- ▶ Montana State University- Great Falls College of Technology (MSUGF)

All campuses are accredited by the Northwest Commission on Colleges and Universities. The four campuses of Montana State University provide undergraduate and graduate academic and two-year vocational-technical programs to students.

Montana State University reported employee FTE (full-time equivalent positions) of 3,960.09 for fiscal year 2003-04. Of these positions, contract faculty positions were 1,189.19 FTE. The following table shows actual fiscal year 2003-04 FTE employees by campus and type.

Table 1
Montana State University
Full-Time Equivalent Employees
Fiscal Year 2003-04
All Funds

Agency	Contract Faculty	Contract Administrative	Contract Professional	Classified	Graduate Assistants	Part-Time & Other	Total
MSU – Bozeman	687.35	44.28	311.42	1,030.55	184.22	338.28	2,596.10
MSU – Billings	195.65	26.20	63.70	218.29	7.85	59.29	570.98
MSU - Northern	80.91	6.46	61.56	80.20	0.65	35.26	265.04
MSU - College of Tech, Great Falls	62.57	3.00	16.85	40.75		6.06	129.23
Agricultural Experiment Station	71.10	.68	36.23	75.71	10.73	31.88	226.33
Extension Service	86.73	.91	7.73	36.16		32.40	163.93
Fire Services Training School	4.88			3.50		.10	8.48
Total	1,189.19	81.53	497.49	1,485.16	203.45	503.27	3,960.09

Source: Office of Commissioner of Higher Education "MUS Operating Budgets 2003-2004" Schedule CHE 18.

Introduction

The following table shows Montana State University student full-time equivalent (FTE) enrollment for fiscal year 2004-05. The average student FTE for the entire university system was 32,763 in fiscal year 2004-05.

Table 2		
<u>Montana State University Student FTE</u>		
Semester Average for Fiscal Year 2004-05		
MSU-Bozeman		
Resident:	Undergraduate	7,367
	Graduate	634
	Total Residents	8,001
Non-Resident:	Undergraduate	1,876
	Western Undergraduate Exchange	394
	Graduate	257
	Total Non-Residents	2,527
Grand Total MSU-Bozeman		10,528
MSU-Billings		
Resident:	COT	638
	Undergraduate	2,891
	Graduate	288
	Total Residents	3,817
Non-Resident:	COT	12
	Undergraduate	85
	Western Undergraduate Exchange-MSUB	189
	Western Undergraduate Exchange-COT	18
	Graduate	31
	Total Non-Residents	335
Grand Total MSU-Billings		4,152
MSU-Northern		
Resident:	Undergraduate	1,112
	Graduate	95
	Total Residents	1,207
Non-Resident:	Undergraduate	50
	Western Undergraduate Exchange	61
	Graduate	0
	Total Non-Residents	111
Grand Total MSU-Northern		1,318
MSU-College of Technology-Great Falls		
Resident:	Undergraduate	1,072
	Graduate	0
	Total Residents	1,072
Non-Resident:	Undergraduate	21
	Western Undergraduate Exchange	0
	Graduate	0
	Total Non-Residents	21
Grand Total MSU-COT-Great Falls		1,093
MSU TOTALS – ALL CAMPUSES		
Total Residents		14,097
Western Undergraduate Exchange		662
Total Non-Residents		2,332
Grand Total MSU Student FTE		17,091
Source: Office of the Commissioner of Higher Education		

Montana State University Funding

The overall level of state support for the Montana University System is determined by the Montana legislature. The legislature appropriates state funds, comprised of general fund and six-mill levy revenues, in a lump sum appropriation for the educational units and all other higher education programs except the research and public service agencies, community colleges, and tribal college assistance programs. The Board of Regents then allocates the lump sum appropriation to the various programs and educational units included in the lump sum appropriation. Personnel from the Commissioner of Higher Education's office indicate the Board of Regents' formula that allocates state funds to the educational units is based upon resident enrollment, an analysis of faculty salaries in states with similar per capita income, the academic program offerings of the university, the necessary support expenditures, Regent priorities, and the amount of state funds available. The Commissioner of Higher Education's office indicated in fiscal year 2004-05, resident students paid tuition amounting to 43 percent of the anticipated cost of their education.

Montana State University- Bozeman

MSU-Bozeman campus was founded in February 1893 as the Agricultural College of the State of Montana. The university is a land-grant institution, authorized by the Morrill Act of 1862, and receives part of its support from land-grant income. The campus offers four-year undergraduate programs along with master's and doctoral graduate programs. It includes the colleges of Agriculture, Arts and Architecture, Business, Education, Health and Human Development, Engineering, Letters and Science, Nursing, and Graduate Studies. Also included as part of the Bozeman campus is the Extension Service, the Agricultural Experiment Stations, and the Fire Services Training School which have facilities located in or near cities or towns throughout Montana.

Montana State University- Billings

MSU-Billings, established in 1927, consists of six colleges: the College of Arts and Sciences; the College of Business; the College of Education; the College of Technology; the College of Professional Studies and Lifelong Learning; and the College of Allied Health Professions. MSU-Billings offers one-year and two-year certificate

Introduction

programs, associate degrees, and bachelor's and master's degrees, as well as pre-professional academic offerings in a number of fields.

Montana State University-Northern

MSU-Northern is a regional, multipurpose educational center, serving students who seek both a technical and liberal arts education. MSU-Northern offers courses at three locations, the campus in Havre, Lewistown and facilities in Great Falls. MSU-Northern offers associate, bachelor's, and master's degrees. A master's degree program is offered in education, with options in counseling and learning development, and general science.

Montana State University-Great Falls College of Technology (MSUGF)

Established in 1969 as a vocational-technical center, MSU-Great Falls College of Technology now serves as a comprehensive two-year college within the Montana University System. MSUGF offers Associate of Applied Science degrees and certificates preparing students for high-demand careers in Health Sciences, Business, and Technology. In addition, MSUGF offers the Associate of Arts degree and the Associate of Science degree for students interested in completing the first two years of a bachelor's degree in Great Falls. Daytime, evening and Internet courses provide students with maximum flexibility in scheduling.

MSUGF is actively engaged with local and state business and industry groups, responding to their needs with customized training, short-term or compressed educational programs, and on-site delivery of learning experiences. Although MSU – Great Falls Campus is devoted primarily to the two-year degree programs of MSU – Great Falls College of Technology, it also serves as a higher education center for the Montana University System, drawing on the resources of other units of the Montana University System to respond to regional demands for higher education programming. MSU - Northern, for instance, offers several bachelor's degree programs on the MSU - Great Falls Campus. The College is located in southeast Great Falls on a 20-acre campus and serves approximately 3,000 students a year.

Prior Audit Recommendations

Our office performed a financial-related audit of Montana State University (all campuses), for the two fiscal years ending June 30, 2003. The university concurred with 8 recommendations, and partially concurred with one recommendation contained in the report. Of these recommendations, the university implemented 8 recommendations and partially implemented 1 recommendation.

The recommendation partially implemented deals with monitoring federal grants and contracts at MSU–Bozeman and is further discussed on page 9.

Findings and Recommendations

Federal Research and Development Grants

MSU–Bozeman received approximately \$63 million in federal research and development grants in fiscal year 2003-04 and \$79 million in fiscal year 2004-05. Federal requirements include ensuring only allowable expenditures are billed to the federal agency, submission of timely financial and technical reports, proper cash management, adequate cost sharing and subrecipient monitoring. These grants are subject to state law and policy as well as federal regulations.

Principal investigators (PI) at the university departments apply for and receive the grants. Fiscal managers within the MSU Office of Sponsored Projects (OSP) monitor these grants. The departments and PIs are primarily responsible for the research required by the grant, and for initiating a series of required documents; while OSP is primarily responsible for ensuring all federal requirements are met and for monitoring activities of the PI and department.

In our prior audit, we noted instances where grant expenditures exceeded authorized budgets, grants were not properly closed out, federal financial reports were untimely and control procedures were not followed by fiscal managers. In the current audit we reviewed 63 federal research and development grants and found the OSP has implemented new controls and improved compliance with its existing control procedures. Grant expenditures did not exceed authorized grant budgets in the grants we reviewed. However, we did find several issues that indicate continued improvements to grant monitoring are necessary. As a result, we conclude the prior audit recommendation was not fully implemented.

Controls over grants and contracts

The Office of Sponsored Projects should improve grant closeout controls to ensure compliance with federal regulations related to timely requests for reimbursement.

OSP grant closing procedures include the use of a closeout checklist to ensure all grant agreement requirements have been met, all financial and technical reports were submitted, indirect costs were

Findings and Recommendations

properly calculated, cost sharing was met and that the university accounting records reconcile to the grant documentation. According to federal regulations, unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award no later than 90 calendar days after the end of the funding period or the date of completion of the grant.

Of the 63 grants we reviewed, the financial status report (SF-269) was not submitted for one and one was not billed in accordance with the 90-day requirement in federal regulations. The SF-269 was submitted three months late and one grant was billed four months late. Also, five grants had incomplete grant closeout checklists. The grant closeout checklist items not marked as complete relate to cost sharing (two grants) and the final reconciliation of grant accounts on the university's accounting records (five grants).

OSP management said the one grant not billed timely did not have extensions from the federal grantor and they were late in getting that final financial report submitted. OSP management said the fiscal managers are required to ensure the checklist is complete before signing the form and putting it in the grant file. Once the final SF-269 is submitted to the federal agency, OSP is in compliance with federal regulations.

By not submitting the SF-269 financial report in accordance with federal regulations, the OSP takes the risk that the federal agency may withhold unliquidated obligations for the particular award. The reconciliation to the university's accounting records ensures the grant accounts are properly zeroed out when the grant is closed. OSP staff were able to demonstrate the cost share was met although it was not documented on the grant closeout checklist.

The OSP has improved controls and compliance with federal regulations. However, they should continue to monitor all grants to ensure compliance with OSP grant closeout procedures by completing all items on the grant closeout checklist before the file is

Findings and Recommendations

closed and submitting the SF-269's to the federal grantor agency within 90 days.

Recommendation #1

We recommend MSU-Bozeman:

- A. Submit final financial reports and billing invoices in a timely manner, not later than 90 days after the end of the funding period; and**
- B. Ensure the grant closeout checklist is complete.**

University Response



Office of the President

211 Montana Hall
P.O. Box 172420
Bozeman, MT 59717-2420

Telephone (406) 994-2341
Fax (406) 994-1893

August 22, 2005

RECEIVED

AUG 23 2005

LEGISLATIVE AUDIT DIV.

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
State Capitol, Room 135
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat

Enclosed you will find Montana State University's response to the recommendation outlined in the narrative segment of our Financial-Related Audit Report dated July 2005.

Montana State University highly appreciated the Legislative Audit Division's efforts in regards to the Financial-Related Audit of the two fiscal years ended June 30, 2005. This audit identified areas for continued improvement.

Sincerely,


Geoffrey Gamble
President

Enclosure

MONTANA STATE UNIVERSITY
Response to Audit Recommendation
For the Two Fiscal Years Ended June 30, 2005

Recommendation #1

We recommend MSU-Bozeman:

- A. Submit final financial reports and billing invoices in a timely manner, not later than 90 days after the end of the funding period; and
- B. Ensure the grant closeout checklist is complete.

Montana State University concurs.

The Office of Sponsored Programs management took the prior audit recommendation very seriously and took immediate action to resolve the issues raised. Quarterly meetings with the Fiscal Managers were instituted to review submission of financial reports, timely submission of billing invoices, large negative cash balances, cost sharing commitments and any other irregularities. Several reports were developed to assist the management of timely report submission, invoicing and grant closeout. We will continue to advance the use of existing technology within the Banner administrative software system to ensure that the final financial reports are entered into the queuing system and are automatically generated in a timely fashion. Since the grant closeout document is completed manually by the Fiscal Managers, the OSP management will continue to emphasize the importance of completing the entire worksheet and will concentrate on providing additional training in its use. At our August 24, 2005 meeting, we will address this recommendation with our Fiscal Managers and then continue to improve.

